

CHARTER COUNTY OF WAYNE, MICHIGAN

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**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over Compliance
in Accordance with OMB Circular A-133**

The County Executive and County Commissioners
Charter County of Wayne, Michigan:

Compliance

We have audited the compliance of the Charter County of Wayne, Michigan (the County) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include operations of the Mental Health Fund, which received \$11,920,526 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2004. Our audit, described below, did not include the operations of the Mental Health Fund because the County engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

As described in items 2004-22, 2004-24, 2004-25, 2004-26, 2004-27, 2004-28, 2004-29, 2004-30, 2004-31, 2004-32, 2004-33, 2004-34, 2004-35, 2004-36, 2004-37, 2004-38, 2004-39, and 2004-40 in the accompanying schedule of findings and questioned costs, the County did not comply with the requirements regarding activities allowed or unallowed, allowable costs/cost principles that are applicable to Community Development Block Grant, Rouge National Wet Weather Demonstration Project, Head Start, and Byrne Formula Grant; cash management for Rouge National Wet Weather Demonstration Project and Byrne Formula Grant; Davis-Bacon Act for Community Development Block Grant; procurement, suspension, and debarment for Byrne Formula Grant; period of availability for Byrne Formula Grant; reporting for Byrne Formula Grant; subrecipient monitoring for Community Development Block Grant, Rouge National Wet



Weather Demonstration Project, and Byrne Formula Grant; and special tests and provisions for Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to these programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the Charter County of Wayne, Michigan did not comply in all material respects, with the requirements referred to above that are applicable to the Community Development Block Grant and Byrne Formula Grant. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that are applicable to the Rouge National Wet Weather Demonstration Project. Also, in our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to the VFC Vaccines program, Head Start, and the Title IV-D for the year ended September 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2004-23.

Internal Control Over Compliance

The management of the Charter County of Wayne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2004-22, 2004-23, 2004-24, 2004-25, 2004-26, 2004-27, 2004-28, 2004-29, 2004-30, 2004-31, 2004-32, 2004-33, 2004-34, 2004-35, 2004-36, 2004-37, 2004-38, 2004-39, and 2004-40.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-22, 2004-25, 2004-26, 2004-27, 2004-28, 2004-29, 2004-30, 2004-32, 2004-33, 2004-34, 2004-35, 2004-37, 2004-38, 2004-39, and 2004-40 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended September 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 31, 2006, which included a reference to the reports of other auditors. We did not audit the financial statements of the Mental



Health Fund, a major governmental fund, which represents 5.0% and 34.9%, respectively, of the assets and revenues of the governmental activities. We also did not audit the Detroit-Wayne County Stadium Authority, which represents 19.9% and 1.2%, respectively, of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Pension Trust Funds, which represent 76.0% and 28.8%, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Mental Health Fund, Detroit-Wayne County Stadium Authority, and the Pension Trust Funds, are based on the reports of the other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the County's basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the County's basic financial statements taken as a whole.

This report is intended solely for the information and use of the County Executive, Commission members, County management, and others within the County, and officials of the State of Michigan and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

July 21, 2006 (except for the schedule of expenditures of federal awards, paragraph number 9, as to which the date is March 31, 2006)

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA number | Expenditures |
|---|------------------------------------|---------------------|
| U.S. Department of Agriculture: | | |
| Direct program – Summer Food Program for Children | 10.558 | S 141,084 |
| Passed through State Department of Education: | | |
| National School Breakfast (note 2) | 10.553 | 86,741 |
| National School Lunch (note 2) | 10.555 | 134,086 |
| National School Snack | 10.555 | 27,862 |
| Nutrition Services/Food Distribution | 10.568 | 101,135 |
| Passed through Senior Alliance (Area Agency on Aging – Nutrition Services) | 10.550 | 610,119 |
| Passed through State Department of Public Health: Special supplemental food | 10.557 | 1,477,816 |
| Passed through Great Lakes Commission: Soil & Water Conservation | 10.902 | 4,576 |
| Total U.S. Department of Agriculture | | <u>2,583,419</u> |
| U.S. Department of Housing and Urban Development: | | |
| Direct programs: | | |
| Community Development Block Grant | 14.218 | 6,872,535 |
| Community Development Block Grant (Hamtramck – Grand Haven BEDI Grant) | 14.246 | 575,084 |
| Community Development Block Grant (Hamtramck – Grand Haven Section 108 Loan) | 14.248 | 744,889 |
| Community Development Block Grant (Hamtramck – Joseph Campau Section 108 Loan) | 14.248 | 764,243 |
| Emergency Shelter Grant (McKinney Act for the Homeless) | 14.231 | 274,478 |
| Home Investment Partnership | 14.239 | 1,508,880 |
| Supplemental Assistance to Assist the Homeless | 14.510 | 126,770 |
| Passed through the City of Taylor: Community Development Block Grant | 14.218 | 5,000 |
| Total U.S. Department of Housing and Urban Development | | <u>10,871,879</u> |
| U.S. Department of Interior: | | |
| Passed through National Park Service: Urban Park and Recreation Recovery Program | 15.919 | 98,392 |

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA number | Expenditures |
|---|---------------------------|------------------|
| U.S. Department of Justice: | | |
| Direct programs: | | |
| Truancy and Intervention Program | 16.548 | \$ 724,516 |
| Community Gun Violence Prosecution Program | 16.609 | 160,000 |
| Community Prosecution Planning Grant Program | 16.609 | 2,892 |
| High Intensity Drug Trafficking Areas | 16.xxx | 44,047 |
| Project Safe Neighborhood Weed & Seed | 16.609 | 50,909 |
| Passed through Michigan Department of State Police: | | |
| Radiological Emergency Planning Grant | 16.007 | 18,427 |
| Passed through Michigan Family Independence Agency: | | |
| Juvenile Accountability Incentive Block Grant | 16.523 | 455,374 |
| Passed through Michigan Department of Community Health: | | |
| School Resource Strategies | 16.579 | 217,336 |
| Byrne Formula Grant | 16.579 | 325,123 |
| Crime Stoppers | 16.579 | 33,038 |
| Truant Net | 16.579 | 77,953 |
| Passed through State Office of Community Oriented Policing: | | |
| COPS in School Grant | 16.710 | 264,844 |
| Passed through State Office of Drug Control Policy: | | |
| Drug Enforcement Task | 16.579 | 95,912 |
| Blitz & Broom | 16.579 | 473,361 |
| Out County Domestic Violence Project | 16.579 | 41,319 |
| Juvenile Zero Tolerance | 16.579 | 172,876 |
| Electronic Media | 16.579 | 25,000 |
| Missing Child Rescue | 16.579 | 200,777 |
| OUIL Apprehension Program | 16.579 | 322,738 |
| Homeland Security | 16.710 | 1,974,978 |
| Byrne State and Local Discretionary Grant | 16.579 | 104,207 |
| Residential Substance Abuse Treatment – State Prisoners | 16.593 | 225,000 |
| Passed through the Bureau of Justice Assistance: | | |
| BJA Discretionary Grant – WAJIS | 16.550 | 1,030,754 |
| Byrne Formula Grant – Wayne Area Justice Information System | 16.579 | 264,885 |
| Passed through the City of Detroit: | | |
| Second Response Team/After Care Program | 16.579 | 74,250 |
| Child Abuse Intervention Team | 16.579 | 72,290 |
| Passed through State Department of Management and Budget: | | |
| Victims of Crime Act – Child | 16.575 | 508,890 |
| Victims of Crime Act | 16.575 | 228,302 |
| Total U.S. Department of Justice | | <u>8,189,998</u> |

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

| Federal Grantor/Pass-through Grantor/Program Title | <u>Federal CFDA number</u> | <u>Expenditures</u> |
|--|------------------------------------|---------------------|
| U.S. Department of Labor: | | |
| Passed through City of Detroit: | | |
| Reed Work First | 17.253 | \$ 217,166 |
| U.S. Department of Transportation: | | |
| Passed through Michigan Department of Transportation: | | |
| Highway Planning & Construction | 20.205 | 1,331,424 |
| Passed through Community Foundation for Southeast Michigan: | | |
| Nankin Mills Way Station | 20.219 | 124,000 |
| Northville Bikeway | 20.219 | 41,200 |
| Passed through Michigan Department of State Police: | | |
| Safety Belt Enforcement Task Force | 20.600 | 57,301 |
| Total U.S. Department of Transportation | | <u>1,553,925</u> |
| U.S. Environmental Protection Agency: | | |
| Direct programs: | | |
| Good Neighbors United Initiative | 66.001 | 9,948 |
| Rouge Nat'l Wet Weather Demo Project | 66.606 | 7,961,264 |
| Wetlands Mitigation | 66.606 | 4,670 |
| Nankin Mills Bank Stabilization | 66.480 | 126,500 |
| Brownfield Pilots Cooperative Agreements | 66.811 | 453,269 |
| Passed through Michigan Department of Environmental Quality- | | |
| State Indoor Radon Grants | 66.032 | 1,700 |
| Water Quality Cooperative Agreement | 66.463 | 50,385 |
| Great Lakes Bathing Beaches Monitoring Program | 66.472 | 3,651 |
| Total U.S. Environmental Protection Agency | | <u>8,611,387</u> |
| U.S. Department of Energy: | | |
| Passed through Michigan Family Independence Agency: | | |
| Weatherization Assistance for Low-Income Persons | 81.042 | 514,510 |
| Federal Emergency Management Agency: | | |
| Passed through Michigan Department of Police: | | |
| Hazard Mitigation | 83.548 | 5,082 |
| 2002 Supplemental Funds Grant | 83.562 | 26,828 |
| Total Federal Emergency Management Agency | | <u>31,910</u> |

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA number | Expenditures |
|---|---------------------------|-------------------|
| U.S. Department of Education: | | |
| Passed through Wayne County Regional Educational Service Agency: | | |
| Part C/Early On | 84.181 | \$ 86,500 |
| Great Parent, Great Start | 84.359 | 21,050 |
| Passed through University of Detroit Mercy | | |
| Federal Work Study – Prosecutor’s Internship Program | 84.033 | 7,762 |
| Total U.S. Department of Education | | <u>115,312</u> |
| U.S. Department of Health & Human Services: | | |
| Direct programs: | | |
| Head Start | 93.600 | 21,361,966 |
| Passed through Area Agency on Aging: | | |
| Senior Community Service Program | 93.044 | 10,000 |
| Nutrition Services | 93.045 | 1,523,468 |
| Passed through Michigan Department of Public Health: | | |
| TB Control | 93.116 | 47,259 |
| Infant Immunization Initiative | 93.268 | 498,212 |
| VFC Vaccines | 93.268 | 2,889,610 |
| Medicaid Outreach & Advocacy | 93.778 | 16,625 |
| Maternal and Child Health Services Block Grant | 93.994 | 135,418 |
| AIDS Counseling & Testing | 93.940 | 178,648 |
| Venereal Disease | 93.977 | 8,513 |
| Crippled Children | 93.778 | 172,006 |
| Oral Health Grant (CPBC Special Project) | 93.994 | 22,900 |
| Maternal and Infant Care | 93.994 | 563,358 |
| Child Lead Poisoning | 93.994 | 100,000 |
| MIC – Maternal Support | 93.994 | 243,525 |
| Passed through Michigan Family Independence Agency: | | |
| Child Visitation Services | 93.556 | 194,978 |
| LIHEAP | 93.568 | 256,581 |
| Title IV-D | 93.563 | 16,650,641 |
| Title IV-E Foster Care | 93.658 | 409,635 |
| Passed through Michigan Department of Community Health: | | |
| Public Health Threats/Emergencies (Bioterrorism) | 93.283 | 528,002 |
| West Nile Virus | 93.283 | 5,000 |
| Smallpox | 93.283 | 2,000 |
| Passed through National Institute of Health: | | |
| Wayne State University Grant | 93.361 | 26,874 |
| Passed through the Substance Abuse and Mental Health Services Administration (SAMHSA): | | |
| Treatment Foster Care Capacity for Youth | 93.230 | 388,250 |
| Total U.S. Department of Health & Human Services | | <u>46,233,469</u> |

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

| Federal Grantor/Pass-through Grantor/Program Title | <u>Federal CFDA number</u> | <u>Expenditures</u> |
|---|---|-----------------------------|
| Department of Homeland Security: | | |
| Passed through the Michigan State Police: | | |
| State Domestic Preparedness Equipment Support Program | 97.004 | \$ 230,239 |
| State Homeland Security Grant Program | 97.004 | 20,000 |
| Solution Area Planner 2003 State Homeland Security | 97.004 | 37,617 |
| Emergency Management Performance Grant | 97.042 | <u>37,666</u> |
| Total Department of Homeland Security | | <u>325,522</u> |
| Total federal awards | | \$ <u><u>79,346,889</u></u> |

See accompanying independent auditors' report and
notes to schedule of expenditures of federal awards.

CHARTER COUNTY OF WAYNE, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

(1) Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Charter County of Wayne, Michigan (the County) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

(2) Food Distribution Program

The Wayne County Youth Home receives funding for administration of commodities under the National School Lunch Program. Reimbursements for administration of the program are reported on the schedule of expenditures of federal awards (CFDA No. 10.553 and 10.555). The value of the commodities received during the fiscal year was \$75,469. The County's Emergency Food Assistance Program (TEFAP) also receives funding for administration of commodities. The program is reported on the schedule of expenditures of federal awards (CFDA No. 10.568). The value of commodities received during the fiscal year was \$367,300.

(3) Highway Planning and Construction Program

The County participates in 64 separate road, street, and bridge construction and repair projects, which are primarily administered by the State of Michigan Department of Transportation. The projects, which are controlled by the State, are recorded in the County's general ledger and amounted to \$16,891,170. The federal financial assistance administered directly by the State has not been included in the tests of compliance with laws and regulations associated with the County's Single Audit.

(4) Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Charter County of Wayne, Michigan provided federal awards to various subrecipients as follows:

| Program | Federal CFDA number | Ampunt provided |
|---|---------------------------|--------------------|
| Head Start | 93.600 | \$ 20,015,760 |
| Title IV-E Foster Care | 93.658 | 367,602 |
| Rouge National Wet Weather Demo Project | 66.606 | 3,904,109 |
| Community Development Block Grant | 14.218 | 6,582,391 |
| CDBG – Hamtramck Section 108 Loan Grand Haven | 14.248 | 744,889 |
| CDBG – Hamtramck Section 108 Loan Jos Campau | 14.248 | 764,243 |
| CDBG – Hamtramck BEDI Grant | 14.246 | 575,084 |
| Home Investment Partnership | 14.239 | 1,250,328 |

CHARTER COUNTY OF WAYNE, MICHIGAN

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2004

(5) HUD Section 108 Loans (14.248)

The Federal Department of Housing and Urban Development (HUD) awarded Section 108 Guaranteed Loans to the City of Hamtramck. The loan represents pass-through funds from the County of Wayne to the City of Hamtramck for the purpose of housing and economic redevelopment. The City of Hamtramck also receives \$650,000 in federal grant funding from the Brownfield Economic Development Initiative (BEDI). The City of Hamtramck was not eligible to apply directly to HUD for BEDI and Section 108 funding since the City of Hamtramck participates with the County of Wayne for the purpose of receiving federal Community Development Block Grant (CDBG) funds. Consequently, the County of Wayne applied for and was awarded the funding. BEDI is designed to help cities redevelop abandoned, idled, or underutilized industrial and commercial facilities where redevelopment is complicated by real or perceived environmental contamination. A BEDI grant must be used in conjunction with a Section 108 Guaranteed Loan commitment. The BEDI grant activity is disclosed on the schedule of expenditures of federal awards under CFDA 14.246, and the CDBG housing portion received by the County of Wayne is disclosed on the Schedule of Expenditures of Federal Awards under CFDA 14.218.

The expenditures related to the Section 108 Guaranteed Loan activity is disclosed on the schedule of expenditures of federal awards under CFDA 14.248. Below is a summary of loan activity for fiscal year 2004:

| Project | Award | Loans from HUD to County | Allocations to City |
|-----------------------------------|--------------|--------------------------------|------------------------|
| Joseph Campau Streetscape Project | \$ 764,313 | 764,243 | 764,243 |
| Grand Haven/Dyar Project | 750,000 | 744,889 | 744,889 |
| Total | \$ 1,514,313 | 1,509,132 | 1,509,132 |

Collateral for repayment of the funds includes future Community Development Block Grant entitlements due to the City of Hamtramck from HUD, passed through the County of Wayne.



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**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The County Executive and County Commissioners
Charter County of Wayne, Michigan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter County of Wayne, Michigan (the County) as of and for the year ended September 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 31, 2006, which included a reference to the reports of other auditors. We did not audit the financial statements of the Mental Health Fund, a major governmental fund, which represents 5.0% and 34.9%, respectively, of the assets and revenues of the governmental activities. We also did not audit the Detroit-Wayne County Stadium Authority, which represents 19.9% and 1.2%, respectively, of the assets and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of the Pension Trust Funds, which represent 76.0% and 28.8%, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Mental Health Fund, Detroit-Wayne County Stadium Authority, and the Pension Trust Funds, are based on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the Wayne County Airport Authority. We have issued a separate report on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters for the Wayne County Airport Authority. The findings, if any, included in that report are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating



to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1, 2004-2, 2004-3, 2004-4, 2004-5, 2004-6, 2004-7, 2004-8, 2004-9, 2004-10, 2004-11, 2004-12, 2004-13, 2004-14, 2004-15, 2004-16, 2004-18, 2004-19, 2004-20, and 2004-21.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1, 2004-2, 2004-4, 2004-5, 2004-6, 2004-19, 2004-20, and 2004-21 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2004-17.

We also noted certain additional matters that we reported to management of the County in a separate letter dated July 21, 2006.

This report is intended solely for the information and use of the audit committee, management, the State of Michigan, and federal awarding and pass-through agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

March 31, 2006

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Section I – Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unqualified**
- (b) Reportable conditions in internal control were disclosed by the audit of financial statements: **Yes**
- (c) Material weaknesses: **Yes**
- (d) Noncompliance that is material to the financial statements: **Yes**
- (e) The type of report issued on compliance for major programs (each major program listed separately in the table below):

| Unqualified | Qualified | Adverse |
|--|---|--|
| VFC Vaccines (CFDA #93.268) | Rouge National Wet Weather Demonstration Project Project (CFDA #66.606) | Community Development Block Grant (CFDA #14.218) |
| Title IV-D Child Support Enforcement (CFDA #93.563) | | Byrne Formula Grant (CFDA #16.579) |
| Head Start (CFDA #93.600) | | |

- (f) Any audit findings that are required to be reported under Section 501(a) of OMB Circular A-133: **Yes**
- (g) Major programs: Byrne Grant (CFDA #16.579); Rouge National Wet Weather Demonstration Project (CFDA #66.606); VFC Vaccines (CFDA #93.268); Title IV-D Child Support Enforcement (CFDA #93.563); Head Start (CFDA #93.600); Community Development Block Grant (CFDA #14.218)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$2,380,407
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

2004-1 Journal Entries – Support and Approval

Criteria

Journal vouchers are prepared by the respective departments and require approval by a supervisor or manager and supporting documentation. The approver of the journal voucher is required to be independent of the preparer of the journal voucher.

Condition

Out of 176 journal vouchers tested, 110 entries were not supported by adequate documentation and 66 journal entries did not contain the appropriate management approval.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Cause

The policies that require review and approval and supporting documentation for each journal entry are not consistently applied and enforced.

Effect

Journal vouchers that lack appropriate approvals and supporting documentation might cause misstatements in the financial statements.

Views of Responsible Officials

The Accounting Division has implemented procedures to ensure that all journal entries are approved and signed by someone independent of the journal entry and that appropriate supporting documentation accompanies each journal entry. Division staff have been trained on the preparation of appropriate supporting documentation. In June 2006, the Department of Management and Budget (M&B) provided internal control training to all County staff, which emphasized the importance of internal control at all levels and an appropriate segregation of duties.

In addition, the Monthly Closing Procedures and Interim Financial Statements Policy/Procedure Statement No. 12002, issued on September 30, 2005, identified the appropriate forms of journal entry support. During FY 06-07, the County will conduct training on financial matters such as the preparation of journal entries and support, year-end closing procedures, revenue and expenditure accruals, and cut-off.

Recommendation

Employees who prepare and process journal entries should receive periodic training. Consideration should be given to developing policies and procedures related to monitoring and detecting noncompliance with County policies. Employees who fail to follow County policies should be subject to appropriate disciplinary action.

2004-2 Journal Entries – System Configuration

Criteria

Data in the JD Edwards general ledger file should include a record of the users who posted and approved journal entries. Additionally, an appropriate segregation of duties should exist among those that prepare, post, and approve journal entries.

Condition

Certain individuals have access to approve their own journal entries, and certain other individuals have access to approve and post journal entries and make changes directly to the general ledger data. Also, various transactions are posted overnight to the general ledger under the identification "Sleeper" within JD Edwards. The identification of the actual approver of a journal entry posted in this manner is not retained or identified within JD Edwards.

Cause

The policies that require segregation of duties for the posting and approval of journal entries are not consistently applied and enforced.

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Effect

Since the sleeper functionality does not identify the originator of the journal entry, this does not provide an audit trail for journal entries. The lack of segregation of duties within JD Edwards and the lack of identification of the approver of posted sleeper entries might lead to inappropriate entries being posted to the general ledger or to unauthorized changes being made to general ledger data.

Views of Responsible Officials

Refer to the response for Finding 2004-1 for the corrective actions for journal entry support and approval.

During FY 05-06, Accounting Division management, with the assistance of the Department of Technology (DOT), reviewed JD Edwards' user access to ensure that (1) users had the access appropriate to their current duties and responsibilities and (2) there was an appropriate segregation between those individuals preparing the journal entries and those individuals approving the journal entries. Certain system limitations provide challenges for input and approval access in Central Accounting, which must have the ability to initiate its own journal entries and approve and post entries from the user departments. The Accounting Division, in collaboration with DOT, continues to explore intermediate system reconfigurations to accomplish this goal. In the meantime, appropriate manual review procedures over manual journal entry preparation and approval have been put in place to mitigate the risk of entries being initiated and approved by the same individuals.

The County is currently upgrading its AS 400 platform. During FY 06-07, the County will upgrade its general ledger system, which will provide enhanced capabilities to address weaknesses in system functionality and documentation.

Recommendation

Individuals who post entries within JD Edwards should not be able to approve their own journal entries within JD Edwards. Additionally, consideration should be given to modifying system configurations or upgrading financial systems to prevent the loss of an audit trail.

2004-3 End User Applications – Financial Reporting

Criteria

Management should have appropriate controls in place to ensure that policies to address IT general controls over critical data, transactions, and programs being maintained by end users exist and are being followed.

Condition

Various financial reporting processes are supported by spreadsheets and data extracts that are performed and controlled by end users. The end users have not established IT general controls over these spreadsheets and reports.

Cause

The primary financial system is not configured to produce all required financial information in a manner and format that allows it to be utilized in the financial reporting process without further analysis and manipulation of the data.

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Effect

The lack of IT general controls over end user applications could lead to inappropriate access to financial data by individuals without a proper segregation of duties. Additionally, spreadsheets and ad hoc reports are more subject to human errors, as they are not necessarily tested for accuracy prior to being used in the production of financial reports.

Views of Responsible Officials

The County will develop and implement procedures designed to ensure that, in the absence of IT controls, appropriate manual end user controls are in place to detect errors in spreadsheets and reports.

Recommendation

IT general controls should be implemented and maintained over any area of technology that is utilized in the production of financial reports or financial data that will be used in the financial reporting process.

2004-4 Recording of Capital Assets

Criteria

Internal controls should exist to ensure that all capital assets are properly recorded in the financial records in accordance with generally accepted accounting principles and related County policies.

Condition

Certain costs related to the operations and maintenance of information systems were improperly capitalized instead of being recorded as expense. The County corrected these errors as they were discovered.

Cause

Procedures that were in place at the time of the initial recording of the costs were not adequate to ensure that the costs were properly recorded in accordance with generally accepted accounting principles and County policies.

Effect

A lack of appropriate internal controls over the recording of capital assets could lead to material errors in the financial statements.

Views of Responsible Officials

The County has implemented procedures over the recording of capital assets, which are designed to ensure that only appropriate expenditures are capitalized. Appropriate staff has been trained on and is using these procedures.

Management review has been enhanced to further ensure that the procedures are being followed and that user departments are adhering to the Capital Assets Policy/Procedure Statement No. 12000. This policy provides specific instructions on the completion and processing of capital asset addition forms, which are designed to provide the information necessary for the Accounting Division to make the appropriate capitalization determinations.

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Recommendation

Individuals who are knowledgeable in the area of generally accepted accounting principles related to capital assets should perform a substantive review of all capitalized costs at the time of the initial recording.

2004-5 Payroll Documentation

Criteria

Timesheets or other adequate records of time worked should be maintained according to relevant document retention standards, time records should be properly approved by an authorized individual, and timesheets should agree to the record of hours paid in the payroll system.

Condition

Out of 338 payroll timesheets selected as a sample, 67 did not contain an indication of approval, such as initials or signature, from an authorized individual; 64 contained a number of hours that did not agree with the hours paid in the payroll system; and 20 timesheets were not able to be located.

Cause

County policies regarding approval of timesheets and retention of documents have not been consistently followed and enforced in all departments.

Effect

County policies and procedures related to the processing of timesheets and payroll should be properly followed, monitored, and enforced to ensure that employees are paid accurately.

Views of Responsible Officials

On May 31, 2006, M&B issued Policy/Procedure Statement No. 12003, "Time Reporting." This policy addresses the proper completion, review, approval, processing, and retention of time reports. The policy also provides standard forms to be used by County personnel, including management, for regular and grant time reporting.

Recommendation

Timesheet policies and procedures should be reviewed and modified to include compliance monitoring and to improve overall compliance with the policies.

2004-6 Expenditure Recognition/Accounts Payable Cut-Off

Criteria

Generally accepted accounting principles require that a government accrue a governmental fund liability and expenditure for most expenditures and transfers in the period in which the government incurs the liability. Liabilities that governments normally pay in a timely manner and in full from expendable available financial resources (for example, salaries and utilities) should be recognized when incurred, without regard to the extent to which resources are currently available to liquidate the liability.

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Condition

Payments made during the period 10/1/04 to 3/31/05 were selected for testing. The payments tested amounted to approximately \$225.6 million. Of this amount, it was determined that approximately \$17.5 million (or 7.7%) was not recorded as expenditures in the proper period. Upon discovery, the County corrected these errors by recording expenditures and related liabilities in the respective funds in the proper period.

Cause

Policies and procedures regarding the collection and review of invoices that should be examined for possible accrual are not operating effectively across all departments.

Effect

The absence of effective cut-off procedures could lead to significant errors in the amount of expenditures recorded for each individual fund in any given year.

Views of Responsible Officials

The County has a process to ensure that expenditures are recorded in the proper period; however, due to the unusual lag from fiscal year-end to issuance of the Comprehensive Annual Financial Report, certain expenditures for invoices received after our normal cut-off period were not properly included in the financial statements. The County has modified its cut-off procedure by extending the cut-off date, as well as performing a test of cash disbursements made subsequent to year-end, to verify that payments are recorded in the proper period.

During FY 06-07, the County will conduct training on financial matters such as the preparation of journal entries and support, year-end closing procedures, revenue and expenditure accruals, and cut-off.

Recommendation

The County should perform its own search for unrecorded liabilities during the closing process and should consider strengthening the internal control procedures over the practices used to capture accrual information.

2004-7 Access to Master Vendor File

Criteria

Access to the JD Edwards (JDE) Vendor Master File should be limited to personnel authorized to enter, edit, or delete vendor information from the Vendor Master List. Such individuals should have an appropriate segregation of duties.

Condition

Certain users with access to process payments and create vouchers also had access to update the Master Vendor file. Furthermore, the Master Vendor file also serves as the "Address Book Master File," which is used for other purposes, such as business unit definitions.

Cause

The Vendor Master File is also being used as the Address Book Master File, which is used for other purposes besides processing payments to vendors.

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Effect

Personnel with conflicting duties and access rights have the ability to add, edit, or delete vendors. This could lead to fictitious or erroneous vendor records, which could cause inappropriate payments to be made or payments to be rerouted to fraudulent addresses. Additionally, the Vendor Master File might become cluttered with multiple entries for a single vendor with name variations; this could lead to a weakening of the internal control procedures that are designed to prevent duplicate payments being processed to the same vendor.

Views of Responsible Officials

During FY 05-06, DOT removed access to the Address Book Master File (the Address Book) for users who had other incompatible functions, such as the ability to process payments and produce vouchers. The County had designed its procedures to allow access to enter, edit, or delete information to a limited number of individuals whose duties and accountability would be separate from the Accounts Payable processing functions. The identification of incompatible functions within the system was an oversight.

Only DOT staff has the ability to modify business unit functions.

Recommendation

A thorough, periodic review should be conducted on a regular basis by individuals who are knowledgeable regarding each individual's job responsibilities to ensure that no individuals with conflicting duties have inappropriate access rights within the financial systems.

2004-8 Procurement Approvals

Criteria

All purchase requisitions larger than \$20,000 must be approved by the Purchasing Administrator. Upon approval, the Purchasing Agent will create a Purchasing Contract Compliance Certificate (PC3) or Document Approval Form (DAF). Subsequently, the PC3 or DAF is approved by the Commission.

Condition

Four out of 54 purchase orders randomly selected for testing did not contain all of the required approvals from authorized individuals. Six other contracts were tested that all related to the Division of Child and Family Services, and it was noted that none of the six contracts were processed in accordance with standard practices and procedures of the County.

Cause

Policies related to purchasing were not consistently followed and enforced in all cases.

Effect

Purchases could be processed and completed without all of the required proper approvals.

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Views of Responsible Officials

Policy #10011, "Required Review/Approvals/Routing for Contracts," and Policy #10012, "Delegated Signature Authority," set forth the requirements for the processing protocols for the electronic Procurement Contract Compliance Certificate (PC-3) and the related contracts, modifications, and amendments, up to and including the signature of the County Executive. The PC-3 Contracts Administration Unit maintains a checklist of all required items before finalizing the contract process. The Grants and Contracts Management Division maintains the control copy of all executed grants and contracts.

During FY 05-06, the Purchasing Division provided training to staff in the areas of purchase order approvals, purchase order modifications, and the preparation and filing of supporting documentation. Purchasing Division senior management will develop and implement more structured policies and processes to flag and prevent similar failures in the future (e.g., ALL modifications/amendments must be approved by the director or director-designee, and not just the agent). The Purchasing Division is also exploring a standard, efficient mechanism within the JD Edwards system to track aggregate dollars added to a purchase order so agents/managers can electronically determine when the maximum allowable amendment has been reached.

All required departmental signatures were obtained for the CFS contracts, including approval by the Commission. The Purchasing Division issued purchase orders in accordance with the Commission Resolutions, but was unable to provide documentation of all of the purchase orders issued under these resolutions. Effective October 1, 2006, the Purchasing Division will develop a procedure to ensure that all Purchasing Division files include a copy of the Commission Resolution(s), where applicable, and properly signed purchase order(s) that agree to the authorized amount in the Resolutions.

Recommendation

Management should emphasize the critical nature of the controls over procurement and consider performing quarterly reviews of the process to ensure that procedures are followed accordingly.

2004-9 Systematic Three-way Match

Criteria

Control procedures should require a three-way match of the purchase order, receiver, and invoice before any payments can be made.

Condition

We observed an accounts payable staff member successfully modify the dollar amount on a receiver without changing the quantity received. However, the system did not return an error message in performing the three-way match with the corresponding purchase order and invoice.

Cause

The financial system is not configured properly to force the three-way match.

Effect

An invoice that was not properly vouched with a three-way match could be processed and paid.

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Views of Responsible Officials

DOT has reconfigured the current system and established a control to provide an error message and to prevent entry if the user attempts to create a payment voucher for an invoice amount that exceeds the amount received.

Recommendation

The IT Department must upgrade the JDE system with system logic that will prevent invoices that are not properly matched with their corresponding purchase order and receiver from being paid.

2004-10 IT General Controls – Treasury System Access

Criteria

Access to system and application resources should be limited to necessary functionality based on job functions.

Condition

All ResIQ users have access to any function within the ResIQ system.

Cause

Role-based security has not been adopted for the administration of the ResIQ system.

Effect

Users might have access to system functionality that conflicts with their job duties.

Views of Responsible Officials

The Treasurer's Office agrees and will limit user access as identified in italics.

Access to ResIQ2 is restricted in three ways:

1. You must have a **Novell** User ID and password to access the Treasurer's file server, "Mon_srv_1." The User ID and password are provided by the Department of Technology after a request is sent.
2. The Novell User ID must be granted access to a user group on Mon_srv_1 called **Accounting**. Access to that group is only granted to employees working in the Treasurer's Office and needing access to ResIQ2 to perform their job functions and is provided by the Department of Technology with a written request. This group is limited to accountants, account clerks, accounting supervisors, and investment officers. There are currently 12 User IDs and a System Administrator ID.
3. Each **ResIQ2** user must have a valid User ID and password to access the program. The ResIQ2 system administrator provides the User ID and a temporary password only to those employees who need access to perform their job functions.

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ResIQ2 has eight functions:

1. Record investments and bank transactions.
2. Report on investments and bank transactions and bank balances.
3. Provide a file that can be uploaded and posted to the general ledger.
4. Allocated interest to all participating accounts.
5. Polling banks. (i.e., Report and download prior-day bank activity).
6. Maintenance. Restore purge/archive data, etc.
7. System Administration. Assign User IDs, passwords, and levels of security. This is a separate program and not accessed through the ResIQ2 program.
8. Utilities. Program setup parameters (i.e., menu setup, path, etc.). This is a separate program and not accessed through the ResIQ2 program.

Each of the functions is described below:

1. Every accountant, account clerk, and accounting supervisor is required to reconcile accounts and enter data into ResIQ2 as part of their job functions. Investment officers are required to enter the investments purchased. Reconciling an account requires the ability to run reports from ResIQ2.
2. Running reports is a requirement for all users of ResIQ2.
3. *The ability to generate a file and send it to the general ledger is a function normally performed by an accounting supervisor or under direction by a senior accountant. The remaining accountants, account clerks, and the three authorized investment officers are not required to perform this function and will be denied access to this function.*
4. *Interest allocation is a function of the accounting supervisor and will be denied to all other users.*
5. *Polling banks is a function performed by the accounting supervisor, senior accountant, or investment officer and will be denied to all other users.*
6. Maintenance is a function for an accounting supervisor and will be denied all other users.
7. System Administrator
8. The utilities program is a function of the System Administrator.

Recommendation

User access should be limited based on job functions.

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2004-11 IT General Controls – Financial Systems Access

Criteria

When changes in job function occur, whether through transfer or termination, system access rights should be appropriately modified or revoked.

Condition

Changes in system access are currently required to be initiated by department users, and there is no mechanism in place to ensure that requests are processed every time a transfer or termination occurs.

Cause

The control procedures related to transfers and terminations are not designed to identify transfers and terminations as they occur and initiate a modification or revocation of system access rights.

Effect

Employees who are transferred or terminated might continue to have access to systems to which they should no longer have access.

Views of Responsible Officials

DOT has standard operating procedures in place to manage system access, upon notification from Personnel and/or a Department Manager.

Additionally, our mission-critical systems are not accessible externally without the use of a "secure ID." Only a limited number of County officials have secure IDs, and they are closely monitored. In almost all instances, therefore, a terminated employee would have to continue to come into the respective office to continue to access the systems. DOT works closely with the County departments it supports, to monitor the status of their staffs. Those County departments are responsible for the physical security of access to their environments.

In addition, DOT has a standard operating procedure to identify and disable those accounts which are not used by users for 30 days and delete after 90 days.

Although in use by certain departments, the County will require checklist completion by all user departments. This checklist provides formal documentation of an employee's separation from the County or transfer and requests termination/modification of all system access. This additional control will supplement DOT's controls, in addition to providing timely documentation of the need for access modifications.

Recommendation

Design and implement a formal procedure for evaluating system access rights every time an employee is transferred or terminated.

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2004-12 IT General Controls – Financial Systems Access Reviews

Criteria

A periodic review should be conducted of active users and user access rights to identify and remove unauthorized system access.

Condition

The policy as stated is to perform access reviews annually; based on inquiries of responsible personnel, the annual reviews have been conducted. Documentation providing evidence of access reviews was available; however, the documentation was not complete, and we were therefore unable to verify if such reviews were conducted completely and timely.

Cause

The policy does not address the requirements for maintaining documentary evidence of the annual access reviews.

Effect

If evidence of reviews is not maintained, then there is no verifiable audit trail of the control procedure.

Views of Responsible Officials

Periodic reviews are being conducted and the documentation is retained for mission-critical systems like financial and HRM systems. Please note that during the audit, we did provide certain documents to provide evidence of our reviews.

Lately, we have used access reviews to confirm with each County department that the appropriate staff had the appropriate level of system access. Our results primarily enabled us to identify users who were no longer with the County, whose access could therefore be terminated. We retain a file of user access changes that shows who we have added or changed access for and when and upon whose request. Samples of the data from this file were provided during the audit.

Although in use by certain departments, the County will require checklist completion by all user departments. This checklist provides formal documentation of an employee's separation from the County or transfer and requests termination/modification of all system access. This additional control will supplement DOT's controls, in addition to providing timely documentation of the need for access modifications.

Recommendation

The access review policy should be modified to include document retention standards.

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2004-13 IT General Controls – Program Change Requests and Acceptance Testing

Criteria

A formal change management process outlining the requirements for making changes to systems and applications should be utilized. These procedures should include change control procedures for configuration settings present in operating systems, databases, system services, and applications. There should also be a process for testing and sign-off by both information systems and user personnel.

Condition

A formal process is in place requiring change requests to be documented and approved and testing to be performed and approved; however, adequate documentation supporting change requests and testing was not found to be maintained.

Cause

The formal change management and testing processes are not adequately designed to ensure that all supporting documentation is obtained.

Effect

Control procedures that do not include document retention are difficult to monitor and audit and therefore might lose effectiveness. If the change management control procedures are not operating effectively, then changes to systems and applications could be made by unauthorized personnel, resulting in inconsistencies in systems/applications or inefficiencies. Also, lack of testing of system and application changes could result in lost data, lost time, and system/application inefficiencies.

Views of Responsible Officials

DOT followed the steps set forth in our change management procedures, mostly relying on electronic and system logs used for audit trails. We are reviewing our change management control procedures to ensure that in all instances we are gathering and maintaining adequate documentation on our system changes. Currently, an effort to revamp our change management procedure in light of various standards (Sarbanes-Oxley, Statement of Accounting Standards No. 70, and Information Technology Infrastructure Library [ITIL]) is under way. Effective in the beginning of FY 06-07, an effective change management process will be deployed and proper documentation will be maintained.

Recommendation

The formal change management and testing processes should be monitored more closely to ensure that each occurrence is accompanied by all required and necessary documentation and approval.

2004-14 IT General Controls – Production Change Limits

Criteria

Changes to applications and data in the production environment should be limited to authorized personnel, and all production changes should be monitored by an individual with an appropriate segregation of duties.

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Condition

Although access to the production environment appears to be limited, changes in production are not monitored.

Cause

The control is not properly designed to meet the requirements of the control activity.

Effect

Changes in production are not monitored, and hence, unauthorized changes to production might go undetected.

Views of Responsible Officials

DOT is already working to standardize it and enforce it with Standard Operating Procedure. In case of financial applications, this can be addressed by having two separate instances of the same application: a test instance and a production instance. We have acquired and are now configuring a new IBM i5 Server to replace the current AS 400 for our JD Edwards application. The new server is partitionable, which will allow us to segregate test from production environments. This will provide much greater control over application changes than we currently have. In addition, a new database administrator has been hired to oversee the test and production environments. One of his job functions is to provide quality assurance over objects to be rolled into production.

Recommendation

Procedures should be developed to monitor all changes that occur in the production environment.

2004-15 IT General Controls – Backup and Recovery Procedures

Criteria

Network backup and recovery procedures should be tested periodically.

Condition

Although recovery procedures are performed twice a year and documentation is maintained for 12 months, there was no available evidence of access reviews during the period under audit.

Cause

Access reviews are not being performed to validate that recovery procedures are actually performed or that documentation is being maintained.

Effect

If access reviews are not performed, then there is limited evidence that the backup and recovery procedures exist or are effective in the restoration process.

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Views of Responsible Officials

Currently, access reviews are done periodically and are maintained in the Disaster Recovery folder (electronically). This review contains documentation of the completion and success of the backup and recovery procedures, in addition to the timestamps. A sign-off document designating that the access reviews have been performed will be added into the documentation retained.

Recommendation

Backup and recovery procedures should include a required sign-off designating that the access reviews have been performed.

2004-16 Application Controls – Access Review

Criteria

Periodic review should be performed of users with access to:

- Process payments in JDE
- Employee master file in PeopleSoft
- Pay code changes in PeopleSoft
- Enter requisitions and/or purchase order in the JDE system
- Create and approve journal entries in the JDE system.

Reviews should be performed to ensure that access is limited to authorized personnel.

Condition

Although periodic reviews should be performed over user access controls, there is no evidence available to validate that these are being performed.

Cause

Documentation is not readily available, nor maintained in a reviewable format to provide evidence that these reviews are being performed.

Effect

Unauthorized persons may gain access to the system and make illegitimate changes to the system data or applications.

Views of Responsible Officials

The Accounting Division has reviewed journal entry user access lists to identify and remove unauthorized users. We will develop, document, and implement a procedure to ensure that complete general ledger access is reviewed, at a minimum, on an annual basis. Also refer to corrective action plans for Finding 2004-2.

DOT has taken steps to centralize access management into one area and develop standard documentation to be maintained. The department has just recently conducted a number of reviews in this regard.

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Recommendation

A sign-off procedure to validate as evidence that the review was performed should be required and maintained. Also, the term "periodic review" needs to be clearly defined as to how often these types of reviews are to be performed.

2004-17 Compliance with Laws and Regulations – Timeliness of Financial Reporting

Criteria

Laws in the State of Michigan require local units of government to submit financial reports within six months of the year-end of the local unit.

Condition

Financial statements for the fiscal years ended September 30, 2004 and 2005 were not filed within six months of the County's fiscal year-end.

Cause

The delay primarily resulted from delays experienced during the audit of the year ended September 30, 2003.

Effect

Delayed financial reporting diminishes the usefulness of the financial statements and could result in penalties or sanctions.

Views of Responsible Officials

The reason for the delay is primarily the result of delays that occurred during the audit of fiscal year 2003. The financial statements for the fiscal year ended September 30, 2004 were issued during 2006, and it is expected that the financial statements for the fiscal year ended September 30, 2005 will be issued by September 30, 2006. The County will issue financial statements for the fiscal year ended September 30, 2006 within six months of the fiscal year-end.

Recommendation

The County should continue to maintain its specific focus on returning to timely financial reporting.

2004-18 Application Controls – Timesheet Approval (PeopleSoft/Payroll)

Criteria

Access to approve timesheets within PeopleSoft should be limited to authorized individuals.

Condition

Once the timekeeper enters a timesheet, it is required to be approved by the department's approver; the assignment of approver authorities is a standard PeopleSoft feature; however, an unauthorized user had authorization to approve timesheets for other departments.

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Cause

The controls are not properly designed to meet the requirements of the control activity.

Effect

Approval of timesheets by unauthorized individuals could lead to absenteeism, payroll discrepancies, etc.

Views of Responsible Officials

On May 31, 2006, M&B issued Policy/Procedure Statement No. 12003, "Time Reporting." This policy addresses the proper completion, review, approval, processing, and retention of time reports. The policy also provides standard forms to be used by County personnel, including management, for regular and grant time reporting.

To complete the processing of the biweekly payroll, several critical steps must occur in a defined and precise order. A deadline is established for user departments to complete time input and approval in the PeopleSoft system. An individual within the Personnel Department is authorized to "lock down" or close the time input module so the Payroll unit can initiate the processing of paychecks. This lockdown capability is accessed through the approval screen within PeopleSoft. This "approval" is not intended to be a substitute for the proper and timely review and approval of time by user department management, but is only the mechanism to prevent input of time after the deadline. Effective immediately, the Personnel Department, in conjunction with M&B, will monitor the instances where this default approval is required and the reasons why. Where necessary, remedial actions will be taken to ensure that appropriate approvals are made within the PeopleSoft system.

The lack of timely approval within the system does not necessarily mean that management has not reviewed the time reports. The Time Reporting policy specifically identifies documentation requirements for review and approval of time reports, PeopleSoft system time entry reports, and payroll registers to ensure that the time reported and paid is accurate.

Recommendation

The parameters of the PeopleSoft feature need to be revisited to ensure that approval is being properly assigned.

2004-19 Internal Controls Over Workers' Compensation

Criteria

In order to appropriately design the internal control procedures to be utilized by the County over the processing and authorizing of workers' compensation claims, the County should first obtain knowledge of the internal control procedures utilized by its third-party administrator. This would assist the County in appropriately contemplating the interaction of the internal controls between the two organizations.

Condition

The County has not evaluated and reviewed the internal control procedures utilized by its third-party administrator.

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Cause

The County does not currently have a policy in place that requires the evaluation of internal controls of third-party administrators.

Effect

By not attaining an understanding of the internal control procedures utilized by the third-party administrator, the County is at risk of not designing its internal control procedures adequately to correlate with or compensate for those of the third-party administrator. Inadequate design of internal controls could lead to unauthorized or inaccurate claims being processed.

Views of Responsible Officials

Effective October 1, 2006, the County will implement a policy requiring third-party administrators obtain and submit a SAS 70 report to the County as a condition of their contract with the County.

Recommendation

The County should consider implementing a policy that any third-party administrator that will provide information that will be used to generate significant accounting estimates will be required to obtain and submit an auditors' report on its internal controls in accordance with Statement on Auditing Standards (SAS) No. 70, *Service Organizations*.

2004-20 Workers' Compensation Documentation

Criteria

Internal control policies and procedures should be clearly documented and followed to ensure that all required documentation and authorizations are obtained and appropriately retained to support the processing and payment of workers' compensation claims.

Condition

All of the 30 employee files selected for testing were missing certain authorizations or certain elements of required documentation.

Cause

Internal control procedures were not followed and monitored on a consistent basis.

Effect

Missing documentation or authorizations could lead to unauthorized or inaccurate claims being processed and paid.

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Views of Responsible Officials

The County believes its Risk Management records include the documentation required by the Workers' Compensation Disability Act of 1969 and properly substantiates the validity of each claim. The Workers' Disability Compensation Act requires employers to compensate workers for injuries suffered on the job, including certain wage loss benefits, the cost of medical treatment, and certain rehabilitation services. The substantive procedures followed to make this determination (e.g., the type of injury, the substantiation of the injury through medical review; the authorization for payment) have not changed; the form of documentation may have.

The difficulty in discerning that all required documentation was present was due to several factors: (1) the age of the files reviewed; (2) the current status of the employee (currently employed, separated, or deceased), which would determine what types of supplementary information may or may not be required; and (3) the change in third-party administrators (TPA) over the years. The forms of documentation may have changed over the years and with each TPA, but the documentation necessary to substantiate the validity of the claim was obtained.

In addition, the Third Party Administrator Medical Bill Review is responsible for auditing billings to ensure that medical providers submitting billings to the County for the treatment of employees' work-related injuries and illness do not exceed the maximum payable amount as outlined in the Michigan Fee Schedule for the medical service provided. This further ensures that payments made are accurate.

Effective October 1, 2006, the County will clearly document its standard file structure for every claim (including a checklist), which will consist of the required employee injury report and supporting medical documentation, to determine compensability of claims submitted by employees for workers' compensation benefits.

Recommendation

The County should design and implement a standard file structure for every claim file. The file structure should utilize a standard table of contents and checklist to assist in ensuring that all files are complete and orderly.

2004-21 Cash Reconciliations

Criteria

Cash accounts in the general ledger should be reconciled to the treasury records on a monthly basis, and all differences should be investigated and appropriately resolved on a timely basis.

Condition

Monthly cash reconciliations contained unresolved differences that were not investigated and resolved on a timely basis. Furthermore, cash reconciliations were being performed several months in arrears.

Cause

Internal control procedures were not followed and monitored on a consistent basis.

Effect

Unresolved differences on cash reconciliations could result in errors and/or irregularities in the general ledger not being corrected in a timely manner.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Views of Responsible Officials

The Accounting Division has implemented an improved process for performing cash reconciliations. Staff has been adequately trained on this new process. In the future, all cash accounts will be reconciled timely and on a monthly basis. All differences will be investigated and resolved monthly.

Recommendation

Cash reconciliations should be completed within a short period of time after each month-end, and all differences should be investigated and resolved immediately.

Section III – Findings and Questioned Costs Relating to Federal Awards:

2004-22 Allowable Costs/Cost Principles – Payroll Certifications CDBG – CFDA #14.218

Criteria

A-87 requires that individuals who solely worked on the federal program should complete certifications of time reported at least semiannually.

Condition

Individuals who solely work the program did not complete time certifications.

Questioned Costs

\$379,691

Cause

Program personnel were unaware of the certification requirement.

Effect

Not requiring certifications could result in inaccurate expense reporting to the grant.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of OMB Circular A-87 certification compliance. Internal controls were and are presently in place to support, approve, and report payroll. An outside consultant has been hired to ensure that certifications are being properly prepared.

Recommendation

Semiannual certifications should be required and obtained from all personnel who charge 100% of their time to a grant program.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

**2004-23 Allowable Costs – Approvals
CDBG – CFDA #14.218**

Criteria

According to the grant agreement, program transfers between line items are required to be pre-approved by the grantor before being made.

Condition

One out of 25 drawdowns selected for testing did not contain the appropriate pre-approval for the transfer of \$1,744 of costs from one pre-approved line item that had reached its limit to a different line item.

Questioned Costs

\$1,744

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Submission of drawdown requests without proper approval of cost categories could cause the program funding to be used for inappropriate purposes.

Views of Responsible Officials

The Department of Management and Budget plans on performing a Program Review in order to develop procedures to ensure grant compliance.

Recommendation

Internal control procedures should be strengthened to prevent inaccurate drawdown requests from being submitted.

**2004-24 Allowable Costs – Missing Documentation
CDBG – CFDA #14.218**

Criteria

Supporting documentation should be maintained for all costs for which reimbursement is requested.

Condition

One out of 25 drawdowns selected for testing did not have any supporting documentation available for review.

Questioned Costs

\$5,858

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Submission of drawdown requests without maintaining adequate supporting documentation could lead to the loss of an audit trail and inappropriate drawdowns.

Views of Responsible Officials

The Department of Management and Budget plans on performing a Program Review in order to develop procedures to ensure grant compliance.

Recommendation

Internal control procedures should be strengthened to ensure adequate documentation is maintained and to prevent inaccurate drawdown requests from being submitted.

2004-25 **Davis-Bacon Act**
 CDBG – CFDA #14.218

Criteria

The Davis-Bacon Act requires that the contractors and subcontractors for construction projects that use federal funds pay prevailing wage rates and that appropriate supporting documentation be maintained.

Condition

Two of 18 subrecipients selected did not have supporting documentation available for review, and 4 out of 18 had information on reports that were submitted to HUD that was inconsistent with the supporting documentation provided.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of compliance with Davis-Bacon Act requirements could cause construction projects to be conducted without paying prevailing wages.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Views of Responsible Officials

The County will implement procedures to comply with the provisions of the Davis-Bacon Act, including prevailing wage rate clauses in all future federally funded contracts and monitoring contractor and subcontractor payrolls for compliance with prevailing wage rate requirements. The Community Development Division of the Department of Economic and Neighborhood Development (DEND) requires on-site interviews for projects that are governed by the Davis-Bacon Act. The Labor Compliance Officer conducts the interviews. Beginning October 1, 2006, the Director of the Community Development Division or designee will review the payrolls to ensure the pay rates are correct.

Recommendation

Internal control procedures should be strengthened to ensure adequate documentation is maintained and to prevent inaccurate reports from being submitted.

2004-26 Subrecipient Monitoring – Monitoring Activities CDBG – CFDA #14.218

Criteria

County policies require periodic on-site monitoring visits of subrecipients and the receipt of Annual Community Performance Reports from the subrecipients.

Condition

Based on a review of the on-site monitoring log, the County only visited 3 communities during the program year, when its policy would call for 11 communities to be visited. Additionally, only 6 of the 11 Annual Community Performance Reports selected for testing were available for review and inspection.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program terms and agreements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Views of Responsible Officials

In May 2005, the Community Development Division of the Department of Economic and Neighborhood Development (DEND) began conducting on-site monitoring of one CDBG grantee per month in order to comply with the requirement that the County monitor all the grantees within a three-year timeframe. The process includes conducting the monitoring visits, and providing follow-up evaluation letters. Two to three of the division's staff conduct the on-site monitoring. Cross-training has been performed for three of the six staff members, and monitoring has been completed for several grantees and the reports and follow-up letters are complete and filed. The monitoring log is updated monthly and located with the other general CDBG administration files.

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis.

2004-27 Program Income – Inadequate Documentation CDBG – CFDA #14.218

Criteria

County policy requires the collection and monitoring of quarterly reports from the subrecipients.

Condition

For 12 out of 15 subrecipients selected, the County did not have quarterly reports on file.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program terms and agreements.

Views of Responsible Officials

The program income received by the sub-grantees is not remitted to the County, but becomes additional funds that are subsequently spent in the program. At the end of the year, the program income is reconciled between the U.S. Department of Housing and Urban Development Integrated Disbursements and Information System (IDIS) and the annual reports submitted by the grantees. The County observes that the CDBG guidelines are met using program income through review of quarterly reports, the annual application and the annual performance report that includes financial statements, and through monitoring.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Recommendation

Internal control procedures should be strengthened to ensure that program income monitoring procedures are conducted on a regular basis.

**2004-28 Special Tests and Provision – Environmental Reviews
CDBG – CFDA #14.218**

Criteria

The grant agreement specifically requires that the recipient obtain environmental reviews for this program.

Condition

Based on the testing of three out of the four vouchers selected, the department did not have the majority of the environmental reviews on file.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate internal control process over special tests could cause the program to disburse funds that are not in accordance with the grant requirements.

Views of Responsible Officials

The Department of Management and Budget plans on performing a Program Review in order to develop procedures to ensure grant compliance.

Recommendation

Internal control procedures should be strengthened to ensure that environmental review procedures are conducted in compliance with the grant agreement.

**2004-29 Special Tests and Provisions – Rehabilitation
CDBG – CFDA #14.218**

Criteria

The grant agreement specifically requires that the recipient document the Rehabilitation monitoring process.

Condition

For 5 of the 25 items selected, the department was not able to provide the necessary documentation to substantiate that the Rehabilitation monitoring function is being performed at the community level.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate compliance with program terms and agreements may cause the County to lose funding due to noncompliance.

Views of Responsible Officials

The Department of Management and Budget plans on performing a Program Review in order to develop procedures to ensure grant compliance.

Recommendation

Internal control procedures should be strengthened to ensure that environmental review procedures are conducted in compliance with the grant agreement.

**2004-30 Cost Principles – Allowable Costs/Payroll Certifications
 Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

OMB Circular A-87 requires that individuals who work solely on the federal program should complete certifications of time reported at least semiannually.

Condition

Individuals who worked solely on the program did not complete time certifications.

Questioned Costs

\$1,102,607

Cause

Program personnel were unaware of the certification requirement.

Effect

Not requiring certifications could result in inaccurate expense reporting to the grant.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of OMB Circular A-87 certification compliance. Internal controls were and are presently in place to support, approve, and report payroll. An outside consultant has been hired to ensure that certifications are being properly prepared.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Recommendation

Semiannual certifications should be required and obtained from all personnel who charge 100% of their time to a grant program.

**2004-31 Cash Management – Payment Timing
Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

Reimbursement-based grants are required to disburse funds for costs prior to requesting reimbursement.

Condition

For 9 out of 50 items tested, the County received reimbursement one or two days before it paid its costs. For 8 out of 50 items tested, the County received reimbursement more than three days before it paid its costs.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of cash management could cause funds to be disbursed prior to incurring and paying costs.

Views of Responsible Officials

During the first half of FY 2004, there were procedural problems wherein Purchasing advised the Grant Project Manager that Purchase Orders were issued, so we included them in the drawdown expecting that Management and Budget could pay by the end of the month prior to the drawdown being requested. Purchasing did not realize they had to print the Purchase Orders to allow us to receive against them. The problem has since been corrected.

Recommendation

Internal control procedures should be strengthened to ensure that program costs are paid by the County prior to being requested for reimbursement.

**2004-32 Subrecipient Monitoring
Rouge National Wet Weather Demo Grant – CFDA #66.606**

Criteria

According to OMB Circular A-133, pass-through entities are responsible for ensuring that subrecipients obtain and submit audit reports and take appropriate corrective actions for any findings.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Condition

Out of 28 subrecipients selected for testing, the County did not have updated audit reports on file for 3 of them, and did not obtain a corrective action plan for 2 others.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program terms and agreements.

Views of Responsible Officials

During fiscal year 2005, the Grants and Contracts Management division began preparing a log to monitor all letters requesting copies of the subrecipient's audit reports that the division mailed and all responses received. Follow-up letters were sent, and where necessary, telephone calls were placed to all subrecipients for which a response had not been received.

During fiscal year 2005, the division began updating its database for any new subrecipient contracts awarded during the year. Since the Division Director must review and approve these contracts, a control exists to ensure all subrecipients are included in the database.

Subsequent funding of subrecipients could be jeopardized if they choose not to respond.

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis.

**2004-33 Allowable Costs/Cost Principles – Payroll Certifications
Head Start – CFDA #93.600**

Criteria

OMB Circular A-87 requires that individuals who work solely on the federal program complete certifications of time reported at least semiannually.

Condition

Individuals who work solely on the program did not complete time certifications.

Questioned Costs

\$695,893

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Cause

Program personnel were unaware of the certification requirement.

Effect

Not requiring certifications could result in inaccurate expense reporting to the grant.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the issue of OMB Circular A-87 certification compliance. Internal controls were and are presently in place to support, approve, and report payroll. An outside consultant has been hired to ensure that certifications are being properly prepared.

Recommendation

Semiannual certifications should be required and obtained from all personnel who charge 100% of their time to a grant program.

**2004-34 Allowable Costs/Cost Principles – Supporting Documentation
Byrne Grant – CFDA #16.579**

Criteria

OMB Circular A-87 and the A-102 Common Rule require that all time, activity, and other costs be sufficiently tracked and supported by documentation.

Condition

The County does not have an adequate process in place to track and document time and activity and other costs for the Prosecutor's Office in order to properly support the amount on the requests for reimbursement.

Questioned Costs

\$1,447,023

Cause

Disparate systems and inadequate internal control procedures have caused a lack of audit trails.

Effect

Failure to maintain adequate supporting documentation and internal control procedures could cause inappropriate costs to be charged to the program.

Views of Responsible Officials

The County issued a time reporting policy on May 31, 2006 that specifically addresses the tracking of time for grant activities. An outside consultant has been hired to ensure that the policy is complied with.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Recommendation

Semiannual certifications should be required and obtained from all personnel who work solely on the program, the reimbursement requests should be based on data from the general ledger, and adequate supporting documentation should be maintained for all costs.

**2004-35 Allowable Costs/Activities Allowed – Grant Agreement
Byrne Grant – CFDA #16.579**

Criteria

General administrative and internal control requirements contained in OMB Circular A-102 and A-110 require that grantees maintain appropriate records (such as grant agreements) to ensure compliance with related requirements.

Condition

The County could not provide a copy of the grant agreement for the Drug Enforcement Task Force Program.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate supporting documentation and internal control procedures could cause program personnel to be unaware of compliance requirements and inappropriate costs to be charged to the program.

Views of Responsible Officials

During fiscal year 03-04, the Prosecutor's Office had a new administration and new staffing. New policies and procedures have been initiated that require better compliance with grant requirements.

Recommendation

Grant agreements should be obtained and maintained for grant programs, and program personnel should be aware of the related compliance requirements.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

**2004-36 Reporting – Segregation of Duties/Management Approval
Byrne Grant – CFDA #16.579**

Criteria

General administrative and internal control requirements contained in OMB Circular A-102 and A-110 require that grantees maintain appropriate internal controls to ensure compliance with related requirements.

Condition

Federal Status Reports and other required reports are generally not prepared and submitted by individuals within an appropriate segregation of duties nor are they consistently reviewed by management prior to submission. Additionally, certain quarterly reports selected for testing could not be located.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause inaccurate reports to be submitted and inappropriate costs to be charged to the program.

Views of Responsible Officials

During fiscal year 03-04, the Prosecutor's Office had a new administration and new staffing. New policies and procedures have been initiated that require better compliance with grant requirements.

Recommendation

Internal control procedures should be strengthened to include appropriate segregation of duties and management review.

**2004-37 Period of Availability
Byrne Grant – CFDA #16.579**

Criteria

Costs are required to be incurred within the time period specified by the grant agreement.

Condition

One invoice out of 13 selected for testing was not within the time period specified by the grant agreement.

Questioned Costs

None, as this appeared to be an isolated incident.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Failure to maintain adequate internal control procedures could cause program personnel to be unaware of compliance requirements and inappropriate costs to be charged to the program.

Views of Responsible Officials

We concur with the finding. A new prosecutor was selected and has hired an administrative staff that now has put procedures in place for tracking and better documentation.

Recommendation

All personnel responsible for processing or approving costs to the program should be aware of the terms of the grant agreement.

2004-38 Procurement and Suspension/Debarment – Approvals/Certifications Byrne Grant – CFDA #16.579

Criteria

County policies require certain management approvals and certifications for procurement transactions.

Condition

Three out of 11 contracts selected for testing did not have appropriate management approval, and 4 out of 4 contracts selected for testing did not have appropriate evidence indicating that the vendor had been screened for suspension or debarment.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Not following established internal control procedures increases the risk of inappropriate contracts being let.

Views of Responsible Officials

Policy #10011, "Required Review/Approvals/Routing for Contracts," and Policy #10012, "Delegated Signature Authority," set forth the requirements for the processing protocols for the electronic Procurement Contract Compliance Certificate (PC-3) and the related contracts, modifications, and amendments, up to and including the signature of the County Executive. The PC-3 Contracts Administration Unit maintains a checklist of all required items before finalizing the contract process. The Grants and Contracts Management Division maintains the control copy of all executed grants and contracts.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

For all contracts effective October 1, 2006 or later, the required certification from contractors and subcontractors stating that they are not suspended or debarred from participating in federally funded programs will be obtained. During FY05-06, Corporation Counsel will finalize its standard suspension and debarment language and such language will be included in all future County contracts.

Recommendation

Internal control procedures should be followed to reduce the risk of inappropriate costs being charged to a grant program.

2004-39 Subrecipient Monitoring – Lack of Procedures Byrne Grant – CFDA #16.579

Criteria

According to OMB Circular A-133, pass-through entities are responsible for ensuring that subrecipients obtain and submit audit reports and take appropriate corrective actions for any findings and for conducting appropriate monitoring activities on subrecipients.

Condition

The County did not actively conduct subrecipient monitoring activities during the program year.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of subrecipients could cause funds to be disbursed to subrecipients who are out of compliance with program terms and agreements.

Views of Responsible Officials

During fiscal year 2005, the Grants and Contracts Management division began preparing a log to monitor all letters requesting copies of the subrecipient's audit reports that the division mailed and all responses received. Follow-up letters were sent, and where necessary, telephone calls were placed to all subrecipients for which a response had not been received.

During fiscal year 2005, the division began updating its database for any new subrecipient contracts awarded during the year. Since the Division Director must review and approve these contracts, a control exists to ensure all subrecipients are included in the database.

Subsequent funding of subrecipients could be jeopardized if they choose not to respond.

CHARTER COUNTY OF WAYNE, MICHIGAN

Schedule of Findings and Questioned Costs

Year ended September 30, 2004

Recommendation

Internal control procedures should be strengthened to ensure that monitoring procedures are conducted on a regular basis.

**2004-40 Cash Management – Payment Timing
Byrne Grant – CFDA #16.579**

Criteria

Reimbursement-based grants are required to disburse funds for costs prior to requesting reimbursement.

Condition

One item selected for testing was paid after the receipt of reimbursement, and another program's total cost was submitted for reimbursement prior to costs being incurred for reimbursement.

Questioned Costs

None

Cause

Internal control procedures over the compliance requirement did not operate effectively.

Effect

Inadequate monitoring of cash management could cause funds to be disbursed prior to incurring and paying costs.

Views of Responsible Officials

The County is a subrecipient to the City of Detroit (City). The County bills the budgeted amount up front and receives payment from the City. This procedure will be changed to comply with grant reimbursement requirements.

Recommendation

Internal control procedures should be strengthened to ensure that program costs are paid by the County prior to being requested for reimbursement.